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**A STUDY ON SHARED CHARACTERISTICS  
TOWARDS PAYMENT NON-COMPLIANCE AMONG  
INDIVIDUALS WITH BUSINESS INCOME**



**MASTER OF SCIENCE  
(INTERNATIONAL ACCOUNTING)  
UNIVERSITI UTARA MALAYSIA  
MARCH 2018**



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## ABSTRACT

This research studies on payment non-compliance among individuals with business income due to the growing concern of its increasing trend over the past years, which contributes to the outstanding tax debt for Inland Revenue Board of Malaysia (IRBM). The research aims at meeting the objectives of examining the shared characteristics towards payment non-compliance, identifying the significance difference between payment non-compliance and aggregate income, as well as determining the significance difference between payment non-compliance, tax agent and tax return. A sample of 365 payment non-compliance individuals with business income were taken from seven IRBM branches. The study has identified seven shared characteristics among the individuals such as payment non-compliance range, tax return, penalty subsection 112(3) ITA 1967, penalty subsection 113(2) ITA 1967, raise type, aggregate income range and tax agent. Each characteristic were further analyze by way of descriptive analysis. On the other hand, the Analysis of Variance (ANOVA) and Independent Samples T-test were used to prove the existence of significance difference between the intended variables. The study highlights significance findings, followed by recommendations that can be considered as part of the tax administration strategies and action plans. The findings highlighted the positive impact of tax agents' appointment that led to a lower rate of penalties under subsection 112(3) and 113(2) ITA 1967. The recommendation would be for the IRBM to continue the effort of ensuring high quality tax agents are in place due to their role as an extension arm to the IRBM in guiding and advising the taxpayers. In conclusion, understanding the shared characteristics towards payment non-compliance among individuals with business income will help the government as the custodian of tax policy of the country as well as the IRBM as the agent to collect direct taxes, to implement effective strategies towards increasing compliance and reducing tax avoidance.

**Keywords:** payment non-compliance, account receivables, aggregate income, tax agent

## ABSTRAK

Kajian ini adalah tentang ketidakpatuhan bayaran di kalangan individu yang mempunyai pendapatan perniagaan, memandangkan terdapat tren peningkatan ketidakpatuhan bagi tahun sebelum yang memberi kesan terhadap cukai yang tidak dibayar kepada Lembaga Hasil Dalam Negeri Malaysia (LHDNM). Sasaran kajian ini adalah untuk mencapai objektif mengkaji persamaan karakter terhadap ketidakpatuhan bayaran, mengenalpasti perbezaan signifikan di antara julat ketidakpatuhan bayaran dengan pendapatan agregat, menentukan perbezaan signifikan di antara ketidakpatuhan bayaran dengan ejen cukai dan pengemukaan Borang Nyata Cukai Pendapatan (BNCP). Sebanyak 365 sampel ketidakpatuhan bayaran di kalangan individu yang mempunyai pendapatan perniagaan telah diambil daripada tujuh (7) Cawangan LHDNM. Kajian ini telah mengenalpasti tujuh (7) persamaan karakter ketidakpatuhan bayaran iaitu julat ketidakpatuhan bayaran, pengemukaan BNCP, penalti subseksyen 112(3) ACP 1967, penalti subseksyen 113(2) ACP 1967, jenis taksiran dibangkitkan, julat pendapatan agregat dan ejen cukai. Setiap karakter dianalisa melalui analisis deskriptif Manakala Analysis of Variance (ANOVA) dan Independent Samples T-test telah digunakan untuk membuktikan kewujudan perbezaan signifikan di antara pembolehubah yang dimaksudkan. Kajian ini menunjukkan penemuan signifikan, diikuti dengan cadangan-cadangan yang boleh dipertimbangkan sebagai sebahagian daripada strategi dan pelan tindakan pentadbir cukai. Keputusan kajian mendapati impak positif ke atas pelantikan ejen cukai yang membawa kepada pengenaan penalti yang rendah di bawah penalti subseksyen 112(3) dan 113(2) ACP 1967. Cadangan kajian adalah agar LHDNM meneruskan usaha ke arah memastikan ejen-ejen cukai berkualiti berdasarkan peranan mereka sebagai pengantara kepada LHDNM dalam memberi panduan dan khidmat nasihat kepada pembayar-pembayar cukai. Kesimpulannya, memahami persamaan karakter ketidakpatuhan bayaran di kalangan individu yang mempunyai pendapatan perniagaan, akan membantu Kerajaan sebagai lembayung polisi percukaian Negara serta LHDNM sebagai ejen pemungut cukai langsung, dalam melaksanakan strategi-strategi yang efektif ke arah meningkatkan pematuhan dan mengurangkan pengelakan cukai.

**Kata Kunci:** ketidakpatuhan bayaran, akaun boleh terima, pendapatan agregat, ejen cukai

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## LIST OF ABBREVIATIONS

ANOVA	Analysis of Variance
ETRP	Enhanced Taxpayer Relationship Program
GDP	Gross Domestic Product
IRAS	Inland Revenue Authority of Singapore
IRBM	Inland Revenue Board of Malaysia
ITA	Income Tax Act
MCAA	Multilateral Competent Authority Agreement
MOF	Ministry of Finance
NKRA	National Key Result Area
OECD	Organization for Economic Cooperation and Development
SAS	Self-Assessment System
SDG	Sustainable Development Goals
SME	Small and Medium Enterprise



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## CHAPTER ONE

### INTRODUCTION

#### 1.0 Overview of IRBM as Direct Tax Collection Agency

IRBM adopts Self-Assessment System (SAS) where the taxpayer is responsible to do tax return within the stipulated period and make payments of the balance of tax payable (if any) in timely manner. The adoption of SAS had a positive influence on taxpayers' compliance behavior (Loo, Mckerchar & Hansford, 2009). Tax audit and penalty carried out or imposed on taxpayer was higher under SAS. There are nine main components in direct tax collection, which is shown in Table 1.1.

Table 1. 1  
*Direct Tax Component*

Direct Tax Component	2016 (RM Million)	2015 (RM Million)
Corporate	65,974.74	71,098.14
Petroleum	8,425.76	11,636.88
Individual	29,603.47	28,276.97
Cooperative	89.71	81.49
Stamp Duty	5,674.04	6,016.25
Withholding Tax	2,549.36	2,329.74
Real Property Gain Tax	1,491.67	1,725.54
International Offshore Financial Centre	90.92	36.88
Others	55.59	33.95
Totals	113,945.26	121,235.84

Source: Annual Report IRBM (2016)

For individuals with business income, the tax return has to be submitted before or by 30 June. Taxpayer will be imposed penalty under subsection 112(3) Income Tax Act (ITA) 1967 if failed to furnish within the allowable period. In order to identify the types of form to be submitted, an individual shall determine the tax residency at the first place. If an individual with business income is a resident in Malaysia or deemed to be resident,

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